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COMMERCE FOR 3150/PBRADLEY/BSMITH
COMMERCE FOR 4201/ITA/IEP/OEERIS/BISNIS/EHOUSE
EMBASSIES - PLEASE PASS FCS
DEPT FOR EUR/CACEN, EB/CBA
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E.O. 12958: N/A

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SUBJECT: (IMI) OVERVIEW OF ARMENIA'S DIAMOND-CUTTING
INDUSTRY

SUMMARY

1. This cable reviews the diamond-cutting industry in Armenia as of October 2004. It includes an overview and contact information for major diamond-cutting enterprises and a discussion of the possible advantages in Armenia for foreign investment. End summary.

2. Diamond processing has been one of the most rapidly developing industries in Armenia. By value, diamonds are now Armenia's largest export and import. In value-added terms the industry's production has risen from USD 89 million in 1999 to USD 250 million in 2003. All the large diamond factories have capacity for expansion, and are open to any foreign cooperation that can help them procure supplies of raw diamonds, the industry's limiting factor.

3. Before independence, Armenia boasted one of the seven large Soviet diamond-cutting plants. Armenia still has a generous allowance of raw diamonds under Russia's export quota system, but the rising price of Russian diamonds has meant that the quotas have gone unfilled while diamond processors have turned to other suppliers and agreements with western firms.

4. Currently, there are about 50 companies active in diamond cutting in Armenia. They can be divided into three groups:

-- Foreign-owned companies that ship their own diamonds to Armenia for processing (Shoghakn, Arevakn, Lori, and Diamotec Factories);

-- Companies that buy raw diamonds from their own suppliers and sell the finished product through their own distribution channels (Diamond Company of Armenia); and

-- Locally-owned companies that polish diamonds on a fee-for-service basis for foreign customers who supply the uncut diamonds and take back the finished products (Andranik, Aghavni, Dzoragyugh factories).

5. Armenia's largest diamond factories are those wholly owned by foreign firms who are both the primary supplier and client. Belgium's Arslanian Cutting Works, owned by Haik Arslanian, an ethnic Armenian businessman from Antwerp, employs about 400 diamond cutters in its Lori factory that produces USD 75 million in diamonds annually. The Belgian company Tashe operates a smaller diamond cutting plant, Arevakn, in the village of Nor Hajn, Kotayk province. In the same village Russian-Israeli businessman Lev Leviyev owns a processing plant that employs nearly 1,500 cutters and exports its entire product for sale in Israel. The Belgian luxury jewelry company Rosy Blue owns and supplies the Diamotec polishing company, which employs 700 diamond cutters in the town of Talin, Aragatsotn province.

6. The Diamond Company of Armenia (DCA) produces USD 30 million of cut diamonds annually. Unlike the other large diamond factories, DCA is independently owned and finds its own suppliers of raw diamonds and controls the distribution of its product. DCA employs 1,000 people.

7. Several smaller Armenian firms (namely, the Andranik, Aghavni, Dzoragyugh factories) finish diamonds and other gems on a fee-for-service basis. For interested investors, Armenia's diamond industry offers the following advantages:

- Availability of inexpensive, highly qualified diamond cutters;
- Availability of modern equipment at the existing plants;
- No taxes on imports of raw materials and exports of finished products;
- No taxes on repatriation of profit; and
- Government support of the industry aimed to facilitate

new investment.

MAJOR DIAMOND CUTTING COMPANIES

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